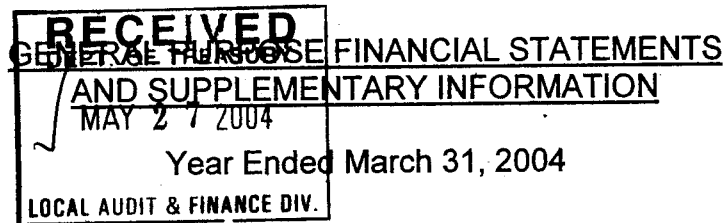


TOWNSHIP OF GRIM
Gladwin County Michigan

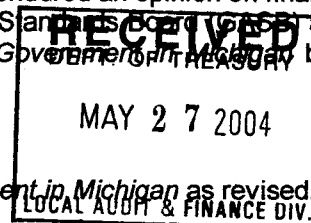


AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Township of Grim	County Gladwin
Audit Date March 31, 2004	Opinion Date April 27, 2004	Date Accountant Report Submitted to State: April 27, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government* by the Michigan Department of Treasury.



We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|--|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Campbell, Kusterer & Co., P.C.			
Street Address 512 N. Lincoln, Suite 100, P.O. Box 686	City Bay City	State MI	Zip 48707
Accountant Signature <i>Campbell, Kusterer & Co., P.C.</i>			

TOWNSHIP OF GRIM
Gladwin County, Michigan

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CAMPBELL, KUSTERER & CO., P.C.

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INDEPENDENT AUDITOR'S REPORT

April 27, 2004

To the Township Board
Township of Grim
Gladwin County, Michigan

We have audited the accompanying general purpose financial statements of the Township of Grim, Gladwin County, Michigan, as of March 31, 2004, and for the year then ended, as listed in the table of contents. These general purpose financial statements are the responsibility of the Township of Grim's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Township of Grim, Gladwin County, Michigan, as of March 31, 2004, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of the Township of Grim, Gladwin County, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

Campbell, Kusterer & Co., P.C.

CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants

TOWNSHIP OF GRIM
Gladwin County, Michigan

COMBINED BALANCE SHEET – ALL FUND TYPES AND ACCOUNT GROUPS

March 31, 2004

EXHIBIT A

	<u>Governmental Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Account Group General Fixed Assets</u>	<u>Total (Memorandum Only)</u>
	<u>General</u>	<u>Agency</u>		
<u>Assets</u>				
Cash in bank	48 575 49	30 78	-	48 606 27
Taxes receivable	1 054 37	-	-	1 054 37
Due from other funds	30 78	-	-	30 78
Land and improvements	-	-	11 145 00	11 145 00
Buildings and improvements	-	-	55 500 00	55 500 00
Equipment	-	-	3 606 42	3 606 42
	<u>49 660 64</u>	<u>30 78</u>	<u>70 251 42</u>	<u>119 942 84</u>
Total Assets	<u>49 660 64</u>	<u>30 78</u>	<u>70 251 42</u>	<u>119 942 84</u>
<u>Liabilities and Fund Equity</u>				
Liabilities:				
Accounts payable	1 329 24	-	-	1 329 24
Due to other funds	-	30 78	-	30 78
Total liabilities	<u>1 329 24</u>	<u>30 78</u>	<u>-</u>	<u>1 360 02</u>
Fund equity:				
Investment in general fixed assets	-	-	70 251 42	70 251 42
Fund balances:				
Unreserved:				
Undesignated	48 331 40	-	-	48 331 40
Total fund equity	<u>48 331 40</u>	<u>-</u>	<u>70 251 42</u>	<u>118 582 82</u>
Total Liabilities and Fund Equity	<u>49 660 64</u>	<u>30 78</u>	<u>70 251 42</u>	<u>119 942 84</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF GRIM
Gladwin County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – ALL GOVERNMENTAL FUND TYPES

EXHIBIT B

Year Ended March 31, 2004

	<u>Governmental Fund Type</u>
	<u>General</u>
Revenues:	
Property taxes	4 164 68
Other taxes – swamp tax	34 468 05
State revenue sharing	8 701 00
Charges for services – PTAF	1 630 10
Interest	452 41
Miscellaneous	<u>1 296 78</u>
Total revenues	<u>50 713 02</u>
Expenditures:	
Legislative:	
Township Board	1 670 00
General government:	
Supervisor	3 194 40
Elections	416 00
Assessor	2 463 32
Clerk	2 984 00
Board of Review	474 00
Treasurer	4 040 00
Building and grounds	1 259 42
Unallocated	2 128 17
Public safety:	
Fire protection	1 000 00
Ambulance	500 00
Public works:	
Highways and streets	11 542 50
Sanitation	5 760 12
Other:	
Pension	825 82
Insurance	<u>2 484 00</u>
Total expenditures	<u>40 741 75</u>
Excess of revenues over expenditures	9 971 27
Fund balance, April 1	<u>38 360 13</u>
Fund Balance, March 31	<u>48 331 40</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF GRIM
Gladwin County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – BUDGET AND ACTUAL – GENERAL FUND

Year Ended March 31, 2004

EXHIBIT C

Page 1

	General Fund		
	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Revenues:			
Property taxes	-	4 164 68	4 164 68
Other taxes- swamp tax	34 000 00	34 468 05	468 05
State revenue sharing	-	8 701 00	8 701 00
Charges for services – PTAF	-	1 630 10	1 630 10
Interest	-	452 41	452 41
Miscellaneous	-	1 296 78	1 296 78
Total revenues	<u>34 000 00</u>	<u>50 713 02</u>	<u>16 713 02</u>
Expenditures:			
Legislative:			
Township Board	1 800 00	1 670 00	(130 00)
General government:			
Supervisor	3 194 40	3 194 40	-
Elections	865 00	416 00	(449 00)
Assessor	3 000 00	2 463 32	(536 68)
Clerk	2 984 00	2 984 00	-
Board of Review	475 00	474 00	(1 00)
Treasurer	4 040 00	4 040 00	-
Building and grounds	1 500 00	1 259 42	(240 58)
Unallocated	6 285 00	2 128 17	(4 156 83)
Public safety:			
Fire protection	6 000 00	1 000 00	(5 000 00)
Ambulance	700 00	500 00	(200 00)
Public works:			
Highways and streets	28 873 95	11 542 50	(17 331 45)
Sanitation	6 000 00	5 760 12	(239 88)
Other:			
Pension	3 000 00	825 82	(2 174 18)
Insurance	3 000 00	2 484 00	(516 00)
Total expenditures	<u>71 717 35</u>	<u>40 741 75</u>	<u>(30 975 60)</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF GRIM
Gladwin County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – BUDGET AND ACTUAL – GENERAL FUND

Year Ended March 31, 2004

EXHIBIT C
Page 2

	<u>General Fund</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Excess (deficiency) of revenues over expenditures	(37 717 35)	9 971 27	47 688 62
Fund balance, April 1	<u>37 717 35</u>	<u>38 360 13</u>	<u>642 78</u>
Fund Balance, March 31	<u>-</u>	<u>48 331 40</u>	<u>48 331 40</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF GRIM
Gladwin County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Township of Grim, Gladwin County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

In accordance with the provisions of the Governmental Accounting Standards Board's Statement No. 14 "The Financial Reporting Entity," the general purpose financial statements of the Township contain all the Township funds and account groups that are controlled by or dependent on the Township's executive or legislative branches.

The reporting entity is the Township of Grim. The Township is governed by an elected Township Board. As required by generally accepted accounting principles, these financial statements present the Township as the primary government.

Basis of Presentation

The financial activities of the local unit are recorded in separate funds and account groups, categorized and described as follows:

Governmental Funds

General Fund

This fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Fiduciary Fund

The Current Tax Collection Fund is used to account for assets held as an agent for others.

Account Group

General Fixed Assets Account Group

This account group presents the fixed assets of the local unit utilized in its general operations.

TOWNSHIP OF GRIM
Gladwin County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

Note 1 – Summary of Significant Accounting Policies (continued)

Measurement Focus/Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present revenues and other financing sources and, expenditures and other financial uses in net current assets.

The modified accrual basis of accounting is followed by the governmental fund types. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual which is both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures, other than principal and interest on long-term debt, are recorded when the related fund liability is incurred, if measurable. Principal and interest on general long-term debt is recognized when due.

Revenues from local sources consist primarily of property taxes. Property taxes and revenues received from the State are recognized when susceptible to accrual. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are measurable and available.

Property Taxes

Property taxes are accrued in the year in which they are levied. The tax levy is recorded as deferred revenue until the subsequent year when it becomes available for use.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the County delinquent tax rolls. The Township 2003 tax roll millage rate was .8404 mills and the taxable value was \$4,955,593.00.

TOWNSHIP OF GRIM
Gladwin County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2004

Note 1 – Summary of Significant Accounting Policies (continued)

Fixed Assets

Purchases of general fixed assets for all funds are recorded as expenditures in their respective funds at the time of purchase. The Township has also established the General Fixed Assets Group of Accounts which is required by generally accepted accounting principles.

Investments

Investments are stated at market.

Receivables

Receivables have been recognized for all significant amounts due to the Township. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Compensated Absences (Vacation and Sick Leave)

Employees are not allowed to accumulate vacation and sick pay and therefore no amount is recorded in the financial statements.

Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these general purpose financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Township Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.

TOWNSHIP OF GRIM
Gladwin County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

Note 1 – Summary of Significant Accounting Policies (continued)

Budgets and Budgetary Accounting (continued)

3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Township Board.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Township Board.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these general purpose financial statements are the originally adopted budgets with all amendments that were approved by the Township Board during the fiscal year.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

Postemployment Benefits

The Township provides no postemployment benefits to past employees.

Note 2 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of

TOWNSHIP OF GRIM
Gladwin County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

Note 2 – Deposits and Investments (continued)

government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township Board has designated one bank for the deposit of Township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Township's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>48 606 27</u>

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

	<u>Bank Balances</u>
Insured (FDIC)	<u>58 664 05</u>
Total Deposits	<u>58 664 05</u>

The Township of Grim did not have any investments as of March 31, 2004.

Note 3 – Fixed Assets

A summary of changes in general fixed assets follows:

	<u>Balance 4/1/03</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 3/31/04</u>
Land and improvements	11 145 00	-	-	11 145 00
Buildings and improvements	55 500 00	-	-	55 500 00
Equipment	<u>3 606 42</u>	<u>-</u>	<u>-</u>	<u>3 606 42</u>
Totals	<u>70 251 42</u>	<u>-</u>	<u>-</u>	<u>70 251 42</u>

TOWNSHIP OF GRIM
Gladwin County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

Note 4 – Interfund Receivables and Payables

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	<u>30 78</u>	Current Tax Collection	<u>30 78</u>

Note 5 – Deferred Compensation Plan

The Township does not have a deferred compensation plan.

Note 6 – Pension Plan

The Township has a defined contribution pension plan covering all Township Board members. The Township contributes a percentage of each covered employee's wages to the plan. The covered employees also contribute a percentage of their wages to the plan. Pension expense for the fiscal year ended March 31, 2004, was \$825.82.

Note 7 – Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for property loss, torts, and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 8 – Building Permits

The Township of Grim does not issue building permits. The building permits are issued by the County of Gladwin.

Note 9 – Total Columns on Combined Statements--Overview

The total columns on the combined financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation, because interfund eliminations have not been made in the aggregation of this data.

TOWNSHIP OF GRIM
Gladwin County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT
Year Ended March 31, 2004

EXHIBIT D
Page 1

Township Board:	
Salaries and per diem	<u>1 670 00</u>
Supervisor:	
Salary	<u>3 194 40</u>
Elections:	
Wages	<u>416 00</u>
Assessor:	
Contracted services	<u>2 463 32</u>
Clerk:	
Salary – Clerk	2 904 00
Salary – Deputy Clerk	<u>80 00</u>
	<u>2 984 00</u>
Board of Review:	
Wages	<u>474 00</u>
Treasurer:	
Salary – Treasurer	3 960 00
Salary – Deputy Treasurer	<u>80 00</u>
	<u>4 040 00</u>
Building and grounds	<u>1 259 42</u>
Unallocated	<u>2 128 17</u>
Fire protection:	
Contracted services	<u>1 000 00</u>
Ambulance:	
Contracted services	<u>500 00</u>

TOWNSHIP OF GRIM
Gladwin County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT
Year Ended March 31, 2004

EXHIBIT D
Page 2

Highways and streets:	
Repairs and maintenance	<u>11 542 50</u>
Sanitation:	
Contracted services	<u>5 760 12</u>
Pension	<u>825 82</u>
Insurance	<u>2 484 00</u>
Total Expenditures	<u><u>40 741 75</u></u>

TOWNSHIP OF GRIM
Gladwin County, Michigan

CURRENT TAX COLLECTION FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
Year Ended March 31, 2004

EXHIBIT E

	<u>Balance</u> <u>4/1/03</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>3/31/04</u>
<u>Assets</u>				
Cash in bank	<u>726 54</u>	<u>133 293 94</u>	<u>133 989 70</u>	<u>30 78</u>
Total Assets	<u>726 54</u>	<u>133 293 94</u>	<u>133 989 70</u>	<u>30 78</u>
<u>Liabilities</u>				
Due to other funds	726 54	3 142 35	3 138 11	30 78
Due to other taxing units	<u>-</u>	<u>130 151 59</u>	<u>130 851 59</u>	<u>-</u>
Total Liabilities	<u>726 54</u>	<u>133 293 94</u>	<u>133 989 70</u>	<u>30 78</u>

TOWNSHIP OF GRIM
Gladwin County, Michigan

CURRENT TAX COLLECTION FUND
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
Year Ended March 31, 2004

EXHIBIT F

Cash in bank – beginning of year	<u>726 54</u>
Cash receipts:	
Current property tax	133 270 43
Interest	<u>23 51</u>
Total cash receipts	<u>133 293 94</u>
Total beginning balance and cash receipts	<u>134 020 48</u>
Cash disbursements:	
Township General Fund	3 138 11
Gladwin County	57 254 50
Beaverton School District	56 909 40
Pinconning Area School District	2 517 94
Bay Arenac Intermediate School District	1 590 33
Clare Gladwin Intermediate School District	7 207 23
Mid Michigan Community College	5 024 46
Refunds	<u>347 73</u>
Total cash disbursements	<u>133 989 70</u>
Cash in Bank – End of Year	<u><u>30 78</u></u>

CAMPBELL, KUSTERER & CO., P.C.

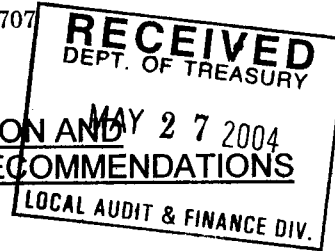
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AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS



April 27, 2004

To the Township Board
Township of Grim
Gladwin County, Michigan

We have audited the financial statements of the Township of Grim, for the year ended March 31, 2004. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Township of Grim in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

To the Township Board
Township of Grim
Gladwin County, Michigan

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are described in Note 1 to the financial statements.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

To the Township Board
Township of Grim
Gladwin County, Michigan

GASB 34 IMPLEMENTATION

The Governmental Accounting Standards Board issued a new reporting model for governmental units which is to be implemented over the next few years. The implementation date of this pronouncement for the Township of Grim will begin with the year ended March 31, 2004, and will need to be implemented fully by March 31, 2005. The daily operations and recording transactions should not change significantly, however, the Township will be required to maintain additional records for the year end adjustments to the final presentation format.

COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY

Our procedures disclosed the following conditions that we would like to bring to your attention:

SEGREGATION OF DUTIES

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Township's financial statements and this communication of these matters does not affect our report on the Township's financial statements, dated March 31, 2004.

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

Campbell, Kusterer & Co., P.C.

CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants